ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

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June 8, 1999

BY FACSIMILE
The Honorable Jay E. Hakes
Administrator
Energy Information Administration
U.S. Department of Energy
1000 Independence Avenue, S.W.
Washington, DC 20585

Dear Dr. Hakes:

On May 20, 1999, the House Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs and the Senate Subcommittee on Energy Research, Development, Production and Regulation held a joint hearing on the Administration's compliance with various statutory requirements relating to climate change policy.

During the hearing, several issues arose regarding the cost, feasibility, and fairness of the Climate Change Technology Initiative (CCTI). Your assistance in clarifying those issues for the record would be much appreciated.

Please answer the attached questions, to the extent information is available. Please provide the information requested in this letter by June 28, 1999 to the House Subcommittee staff in Room B-377 Rayburn House Office Building. If you have any questions, please contact Subcommittee Staff Director Marlo Lewis at 225-1962.

Thank you in advance for your attention to this request.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources and Regulatory Affairs

Attachment

cc: The Honorable Dan Burton
The Honorable Dennis Kucinich

Q1. CEA Chair Janet Yellen estimates that the Kyoto Protocol, if flexibly implemented, would cost the U.S. no more than $14 to $23 for every ton of carbon reduced or avoided. The Administration emphasizes that the CCTI programs are "completely voluntary." If designed properly, voluntary programs, such as the CCTI tax credits, should cost less than mandatory programs, such as those required for full implementation of the Kyoto Protocol.

a. For each of the proposed CCTI tax credits, what is the cost per ton of carbon reduced or avoided in Fiscal Year (FY) 1999 dollars? Please estimate the tax revenue losses using different discount rates, for example, 0%, 7%, and 15%.

b. What is the average revenue loss of the proposed CCTI tax credits per ton of carbon reduced?

c. In his prepared testimony for the joint hearing (p. 7), Jerry Taylor of the Cato Institute estimates that the heat pump tax credit would cost $349 per ton of carbon reduced. In fact, says Taylor, if we assume a 10% discount rate, the cost of the heat pump tax credit rises to $666 per ton of carbon reduced. What is the Energy Information Administration's (EIA's) estimate of the tax expenditure costs of the heat pump tax credit, assuming both a 0% and a 10% discount rate? If possible, please also provide the tax expenditure costs for other CCTI-targeted technologies.

d. Which, if any, of the CCTI tax credits costs less than $14 to $23 per ton of carbon reduced?

Q2. In its March 2, 1999 report to the House Science Committee, EIA states: "We are unable to link research and development expenditures directly to program results or to separate the impacts of incremental funding requested for fiscal year 2000 from ongoing program expenditures." In contrast, the Department of Energy (DOE) appears to believe that it can estimate the results of research and development (R&D) programs and funding increments for such programs. For example, the President's April 20th report to Congress on climate change policy states, "By 2010, DOE's building technology programs will lead to reductions in greenhouse gas emissions of up to 36 million metric tons of carbon equivalent annually." Please explain why EIA believes it is not possible to link R&D expenditures directly to program results or to separate the impacts of incremental funding increases from ongoing expenditures.

Q3. a. What is EIA's estimate of the percentage of the CCTI tax credits that would go to "free riders"-- people or businesses who would have purchased the energy efficient product or made the energy efficiency investment anyway, without a special tax preference or inducement?

b. Based on EIA's estimate of the percentage of free riders, what environmental benefits, if any, would the CCTI tax credits for alternative fuel vehicles, wind

generation, and solar generation achieve beyond the business as usual baseline?

Q4. a. EIA's *Annual Energy Outlook 1999* (AEO99) includes projections for energy efficiency and carbon emissions for the years 2000 through 2020. What impact would the Administration's tax credit proposals have on energy efficiency and carbon emissions during 2000-2020 relative to: (1) the EIA reference case (which assumes continuing R&D and related energy-efficiency improvements), and (2) the 1999 technology scenario (which assumes no further improvements in energy efficiency)?

b. Please break out the results of your answer to the foregoing question by sector (i.e., transportation, commercial, industrial, residential), and by any subsectors analyzed in EIA's model.

Q5. For each sector, describe the technologies assumed to be deployed and commercially available in the AEO99 reference case.

Q6. In his testimony, Jerry Taylor argues that market barriers to the introduction of new technologies are typically not "market failures" but rather market efficiencies. To illustrate his point, Mr. Taylor, using EIA data, calculates that consumers would have to spend an additional $1,100 to purchase the CCTI-approved high-efficiency heat pump but would save only $783 in electricity costs during the equipment's 11-year operating life. He comments: "At the very least, spending $1,100 to save $783 hardly represents a net plus for the economy."

a. Does EIA concur that consumer reluctance to purchase the most energy-efficient heat pump may be rational behavior and, therefore, an example of market efficiency rather than market failure?

b. For each technology targeted by the CCTI tax credits, please describe any current barriers to private sector use, including any regulatory barriers. In EIA's judgment, are the non-regulatory barriers "market failures" or just facts of economic life?

Q7. The Administration believes that the CCTI -- a combination of tax incentives and R&D investments -- can significantly accelerate the development and penetration of new technologies in the marketplace. Do most advertising claims, whether by Federal agencies or private companies, regarding the commercial viability of future technologies, prove to be overly cautious or overly optimistic? Please provide specific examples to illustrate your answer.